



BRSW CPA'S DECEMBER 2023 NEWSLETTER

Dear Clients and Friends,

With the turn of the new year, it is time to start thinking about moves that may help lower your tax bill for this year and next. The standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results. Most of the current tax provisions will remain in effect until the end of 2025, at which point the law will revert back to the pre-Trump tax rules.

The biggest change is fast approaching. Starting in 2024, new and existing small domestic LLCs and corporations will need to register their Beneficial Owner Information (BOI) with the Financial Crimes Enforcement Network (FinCEN). With penalties including prison time and daily fines at \$500 with no cap, it is of the utmost importance that anyone who owns a business or works in a senior officer capacity is aware of the requirements. Please speak with your attorney about this upcoming requirement.

Not all of these strategies will apply to you, but you (or a family member) may benefit from many of them. We can narrow down specific actions to tailor a particular plan for you when we meet after the new year. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves might be beneficial.

We appreciate the opportunity to be of service to you!

Sincerely,

Bashore Reineck Stoller & Waterman Inc

Your friends at Bashore Reineck Stoller & Waterman Inc

YEAR-END TAX PLANNING FOR INDIVIDUALS

529 to Roth IRA

SECURE 2.0 allows up to \$35,000 from a 529 account to be transferred tax-free into a Roth IRA for the same beneficiary after it has been open 15 years.

This eliminates a lot of the apprehension surrounding any unused funds in a 529 plan. It can also be used as a potential workaround for those who are above the income threshold to be able to open their own IRA as a way to defer more income.

Health Savings Account Limits

Depending on the health plan deductible and out-of-pocket limits, you may be able to make contributions to a medical savings account and receive an above-the-line deduction. The maximum total HSA contributions is \$3,850 for self-only coverage and \$7,750 for family for 2023. The maximum FSA contribution is \$3,050 with a rollover amount of \$610 for 2023.

Required Minimum Distribution from Pension / IRA

Required Minimum Distribution (RMD) age for 2023 now starts at 73 and will increase to 75 in 2033. Penalties for failing to take RMD has reduced from 50% to 25% with an opportunity to reduce it further to 10%.

Qualified charitable distributions directly from pension or IRA to charity can be counted towards RMD and can be designated from age 70.5 on up to \$100,000 in 2023.

Retirement Contribution Limits

The limit in 2023 for 401Ks, 403Bs, 457s is \$22,500 for employee contributions plus \$7,500 for 50+ catch up.

The limit for contributions in 2023 for SIMPLE IRA & SARASEP is \$15,500 plus \$3,500 for 50+ catch up.

Traditional and Roth IRA contribution limits for 2023 is \$6,500 plus \$1,000 for 50+ catch up.

Documents for Tax Return

Documents to bring or drop off if you have

Earned income: W-2, 1099-NEC, 1099-MISC

Received unemployment: 1099-G

Marketplace Health Insurance: 1095-A

Gambling earnings: W-2G (along with itemized losses separated from winnings, can not be netted)

Sports betting: 1099-MISC or 1099-K

Received retirement distributions: 1099-R

Received Social Security: SSA-1099

Own a partnership or S-Corp: K-1

Savings / Investment interest: 1099-INT

Received dividends: 1099-DIV

Sold securities: 1099-B

Paid mortgage interest: 1098

Paid tuition: 1098-T

Paid student loan interest: 1098-E

Payment to 529: 1099-Q

HSA/FSA/MSA distributions: 1099-SA

IRA: 5498 for value

Donated to charity: receipts for donations

Paid for childcare: Cost and information of caregiver (name, address, EIN/SSN)

Other helpful information to bring:

Identify PIN Form if you signed up for one

Signed engagement letter

Copy of up to date drivers license

Estimated tax payments and dates

Any tax agency notices or communications

FARM ESTATE & RETIREMENT PLANNING

Grain Gifting

To gift grain to a charity, the farmer cannot sell the grain and order the proceeds to be sent to charity. This would result in the transaction being considered a cash sale and cash donation since the farmer has not given up control of the property. Instead, the farmer should transfer the bushels directly to the charity's name and then the charity sells the bushels. When gifting grain to an individual, the donor's opening inventory must be reduced for any costs or un-deducted expenses relating to the transferred property. That means the donor cannot deduct current-year costs applicable to the commodity. However, costs deducted on prior returns are allowed. Thus, a farmer reporting on a calendar-year basis under the cash method is allowed full deductibility of expenses if a gift of raised commodity is not made until the tax year after harvest (i.e., the grain which is the subject of the gift was raised in a year prior to the gift, and all associated expenses would have been deducted in the prior year).

Trust and Estate Distributions

Complex trust and estate distributions made within the first 65 days of 2024 may electively be treated as paid and deductible in 2023. The election is generally made on the return for the election year. Thus, fiduciaries do not need to make payments in 2023 for the payments to be deductible in that year. They can wait until 2024, when the 2023 tax picture will be clearer, to decide whether the payments may be more profitably imputed back to 2023 via the 65-day rule or treated as 2023 payments.

Equipment Sales and Leases

Since equipment values are high and interest is no longer cheap, consider selling some of that excess equipment you no longer use. The tax will take care of itself with the increase in prices.

To avoid self-employment tax on equipment leases, a retired farmer should include the equipment lease and land lease together.

Portability and Estate Limits

The estate limit is currently \$12,920,000 per person. When someone dies be sure to elect portability so any unused portion of the estate limit can be transferred to their spouse. Otherwise, the unused portion of the estate exemption will be lost. The estate exemption limit will fall back to \$6.8 million in 2026 when the Trump cuts expire.

Related Party Loans

To avoid imputed interest on a related party or land sale loan, make sure to watch out for below market loans so you do not incur imputed interest. One way to avoid imputed interest is to look at the IRS applicable federal rate chart when determining the interest rate. Those have substantially increased over the past year.

Gift Tax Exclusion

The annual gift tax exclusion for 2023 is \$17,000 per person, which is increasing to \$18,000 in 2024.

YEAR-END TAX PLANNING FOR BUSINESSES

Other Tax Cuts and Jobs Act (TCJA) and CARES Act Business Provisions

20% Business Deduction: Pass-through businesses, e.g., sole proprietorships, partnerships, limited liability companies and S corporations, may be able to take a deduction of up to 20% of their business income from a qualified trade or business (qualified business income (QBI) deduction). The deduction cannot exceed 20% of the excess of the taxpayer's taxable income over his or her net capital gain for the tax year.

Interest Limitation: Businesses are no longer allowed to add back depreciation expense when calculating net income for the interest limitation at 30% of income. This means capital intensive businesses with a high depreciation expense may not be able to deduct all interest expense in 2023.

Research & Development Amortization: Research & development expenses must be amortized over time instead of being deducted as a current year expense.

An accrual basis corporation can take a deduction in its current tax year for a bonus not actually paid to its employees until the following tax year if 1) the employee does not own more than 50% in value of the C corporation's stock, or 2% or more of the S corporation's stock, 2) the bonus is properly accrued on its books before the end of the current tax year, and 3) the bonus is actually paid within the first 2-1/2 months of the following tax year (for a calendar year taxpayer, within the first 2-1/2 months of 2024).

Bonus Depreciation

Bonus Depreciation has dropped to 80% for assets purchased in 2023. Taxpayers may want to consider higher depreciation in 2023 when 80% is allowed versus 2024 when it drops again to 60%. Bonus Depreciation is set to phase out completely in 2027.

Mileage Rates

Milage Rates for 2023 are as follows: 65.5 cents per mile for business purposes, 22 cents per mile for medical and moving purposes, and 14 cents per mile for charitable purposes.

Business mileage for 2024 is 67 cents per mile.

New 1099-K Threshold

For those that use third party payment apps to accept payments for selling goods and services, the threshold for receiving a 1099-K is reducing to \$5,000 in 2024. It is currently at \$20,000 and 200 transactions for 2023.

Business Meals Deduction

The Consolidated Appropriations Act of 2020 provision that allowed certain business meals to be deductible at 100% has sunset. In 2023, business meals are once again only 50% deductible.

COMPLIANCE FOR BUSINESSES

Corporate Transparency Act

This act requires domestic LLCs and corporations to register their Beneficial Ownership Information (BOI) with the Financial Crimes Enforcement Network (FinCEN). Exclusions apply to tax exempt entities, larger companies with more than 20 full time US employees and more than \$5 million in gross sales, as well as several other specific types of entities.

Businesses existing prior to January 1, 2024 will have until January 1, 2025 to register with FinCEN, but business created after will only have 30 days to submit their BOI report. Updates to any information changes, such as renewing a driver's license or changing senior officers, will need to be filed within 30 days of the change. For 2024, businesses are given 90 days to submit filings.

Failure to file timely reports can result in civil penalties of up to \$500 per day or criminal penalties of up to two years imprisonment and a fine of up to \$10,000.

Independent Contractor vs Employee

When paying an individual for work, it can be complicated to determine whether to treat the person as an employee or independent contractor. There has recently been more scrutiny for classifying someone as a contractor. Familiarize yourself with the guidelines to ensure you won't be held liable for missed payroll taxes.

At its most basic level, the courts have looked at the behavioral control, the financial control, and the relationship between the parties. The more control a business has over the individual's performance and economic viability, and the more benefits received from the business, it is more likely for the person to be an employee.

Compensation Reminders

Due to COVID-19, many employers asked their employees to work from home. This could have some withholding tax implications when an employee lives in a different state from the company or works in more than one state. Many states have issued guidance as to what creates nexus for an employer. This may force a business to file additional state income tax returns.

Gift cards are taxable to employees and must be included in gross wages on Form W-2.

Employers will need to use Form 1099-NEC to report compensation over \$600 paid to nonemployees.

The due date for filing 1099 forms is January 31.

New E-Filing Requirements

Beginning in 2024 for tax year 2023, the threshold for requiring e-filing by filers has been lowered from 250 of each type of return in a year to 10 in total (this includes W-2s).

This change also requires partnerships with 100 or more partners to e-file all information returns.

Corporations that report total assets under \$10 million are no longer exempt from the e-filing requirement.

The IRS created a new free online portal called Information Returns Intake System (IRIS) to help businesses file a series of 1099 Forms. This system is available to use in 2023 to file forms 2022 and later.

COMPLIANCE FOR BUSINESSES

Pass Through Entity Tax

Ohio has given stakeholders in pass-through entities a new way to avoid the State and Local Tax (SALT) cap of \$10,000 that was passed in the Tax Cuts and Jobs Act by allowing the option of paying an elective Pass-Through Entity (PTE) Tax. Unlike the composite tax for out of state owners, this PTE tax payment applies to all owners and reduces their AGI at an entity level by taking a federal deduction for the 3% tax rate for 2023.

Employee Retention Credit

The deadline to file for the Employee Retention Credit (ERC) for quarters in 2020 is April 15, 2024 and for quarters in 2021, the deadline is April 15, 2025. The IRS has stated that all new claims will not be processed until 2024.

Ohio CAT

For tax periods effective January 1, 2024:

- AMT is eliminated
- CAT exclusion is increased to \$3 million for 2024 and \$6 million for 2025 with exceeding amounts taxed at 0.26%
- Final annual returns for 2023 are due May 10, 2024 and February 12, 2024 for quarterly filers in addition to filing a cancellation notice.

Small Business Pension Credits

Created and enhanced in tax law changes SECURE and SECURE 2.0, there are now three distinct tax credits available for small businesses who adopt a new pension plan and provide employer contributions.

An eligible employer has 100 or fewer employees who were paid at least \$5,000 in the previous year and have had no active plan in the past 3 years. The new pension plan must cover at least one non Highly Compensated Employee (NHCE) and can't cover substantially the same group of employees that have received benefits in another sponsored plan or be in the same controlled group that has already received the tax credits.

Qualified start up costs to establish, administer, and educate employees for the first three years are covered up to 50% or 100% with the tax credit depending on the number of employees.

Employers with 50 or fewer employees can also receive a maximum tax credit of \$1,000 per NHCE per year for five years for providing employer contributions. This credit starts at 100% of the employer contribution for the first two years and is reduced over time, which ends at 25% the fifth year. Businesses with 51 to 100 employees receive the same credit, but the percentages covered are reduced 2 points per employee over 50.

The final tax credit of \$500 annually is available for eligible businesses who automatically enroll employees in a new or existing plans for the first 3 years of the automatic contribution arrangement. SECURE 2.0 will require all new 401(k) and 403(b) plans starting in 2025 to have the auto-enrollment feature.

INFLATION REDUCTION ACT

Healthcare Costs

The Inflation Reduction Act will:

Empower Medicare to negotiate prescription drug prices, beginning with ten of the highest costing drugs in 2023 and expanding to 20 each year by 2029, saving \$100 billion.

Cap Medicare beneficiaries' out-of-pocket costs at \$2,000 per year, with the ability to spread the cost over monthly payments, saving more than a million seniors \$1,200 per year.

Extend for three years provision from the American Rescue Plan that improved health care affordability for people who buy insurance on the individual marketplaces.

Cap out-of-pocket spending on insulin for seniors in the Medicare program, ensuring that no senior pays more than \$35 a month for the medicine they need to survive.

Increase help for low-income seniors, giving all qualifying Medicare beneficiaries the full low-income subsidy under Medicare Part D. The average value of this assistance is around \$5,000 per person.

Stabilize Part D premiums in Medicare, ensuring seniors and people with disabilities will never see their premiums increase more than 6% from year to year through 2029.

Clean Energy Tax Credit for Homeowners

Tax credits are extended to 2032 incentivizing homeowners to add solar or wind power systems. Eligible homeowners could qualify for a 30% tax credit. After 2032, a 26% tax credit would apply until 2034. Tax incentives are also included for the purchase of energy-efficient water heaters, heat pumps and HVAC systems. Rebates for these items can add up to as much as \$14,000. These rebates take effect immediately. Also, the non-business energy credit for various home improvements has been expanded to be \$1,200 a year, but only for purchases made after December 31, 2022.

Alternative Fuel Vehicle Refueling Property Credit

Beginning January 1, 2023, fueling equipment for natural gas, propane, hydrogen, electricity, E85, or diesel fuel blends containing a minimum of 20% biodiesel is eligible for a tax credit of 30% of the cost or 6% in the case of property subject to depreciation, not to exceed \$100,000.

Qualified Commercial Clean Vehicles Credit

Effective for vehicles acquired after December 31, 2022, and before January 1, 2033. A taxpayer can claim a credit for purchasing and placing in service a qualified commercial clean vehicle during the taxable year. The amount of the credit is the lesser of (1) 15 percent of the taxpayer's basis in the vehicle (30 percent in the case of a vehicle not powered by a gasoline or diesel internal combustion engine), or (2) the incremental cost of the vehicle. The credit is limited to \$7,500 in the case of a vehicle that has a gross vehicle weight rating of less than 14,000 pounds, and \$40,000 for all other vehicles.

2024 Changes for Tax Returns Filed in 2025

2024 Tax Brackets

Tax brackets for 2024 are as follows:

- 37% for incomes over \$609,350
(\$731,200 for married couples filing jointly)
- 35% for incomes over \$243,725
(\$487,450 for married couples filing jointly)
- 32% for incomes over \$191,950
(\$383,900 for married couples filing jointly)
- 24% for incomes over \$100,525
(\$201,050 for married couples filing jointly)
- 22% for incomes over \$47,150
(\$94,300 for married couples filing jointly)
- 12% for incomes over \$11,600
(\$23,200 for married couples filing jointly)
- 10% for incomes less than \$11,600
(\$23,200 for married couples filing jointly)

Gift Exclusion and Adoption Credit Increases

The annual exclusion for gifts increases to \$18,000 for calendar year 2024, up from \$17,000 for calendar year 2023.

The maximum credit allowed for adoptions for tax year 2024 is the amount of qualified adoption expenses up to \$16,810 up from \$15,950 for 2023.

Standard Deduction, Child Tax Credit, and Earned Income Tax Credit

The standard deduction for married couples filing jointly for tax year 2024 rises to \$29,200, up \$1,500 from the prior year.

For single taxpayers and married filing separately, the standard deduction rises to \$14,600 for 2024, up \$750 from the prior year.

For heads of household, the standard deduction will be \$21,900 for tax year 2024, up \$1,100 from the amount for tax year 2023.

The Child Tax Credit remains at \$2,000 for 2024, but the refundable portion is up to \$1,700 in 2024, up from \$1,600 in 2023.

The tax year 2024 Earned Income Tax Credit amount is \$7,830 for qualifying taxpayers who have three or more qualifying children, up from \$7,430 for tax year 2023. The revenue procedure contains a table providing maximum EITC amount for other categories, income thresholds, and phase-outs.

Alternative Minimum Tax Exemption Increase

The Alternative Minimum Tax exemption amount for tax year 2024 is \$85,700 and begins to phase out at \$609,350 (\$133,300 for married couples filing jointly which phases out at \$1,218,700). The 2023 exemption amount was \$81,300 and began to phase out at \$578,150 (\$126,500 for married couples filing jointly and phasing out at \$1,156,300).

HSA and FSA Contributions Limits for 2024

For those enrolled in a High-Deductible Health Plan (HDHP) where the deductible is not less than \$1,600 and maximum out of pocket expenses capped at \$8,050 individuals can contribute up to \$4,150 to an HSA in 2024, up \$300 from 2023. Families with coverage under an HDHP where the deductible is not less than \$3,200 and the out of pocket expenses are capped at \$16,100 can contribute up to \$8,300 in 2024, up \$550 from 2023. The catch up contribution for those over 55 years old remains at an additional \$1,000.

The maximum contribution limit for an FSA is increasing to \$3,200 in 2024, up from \$3,050 in 2023. The rollover amount is also increasing to \$640 in 2024, up \$30 from the prior year.